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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001276

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NEA FOR FRONT OFFICE; NEA/IPA FOR WILLIAMS/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/WATERS; TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON; USEU BRUSSELS FOR PLERNER

E.O. 12958: DECL: 06/20/2017

TAGS: FFIN KTFN KWBG IS

SUBJECT: GAZA BANKS OPERATING NORMALLY BUT TAKING PRECAUTIONS

REF: TEL AVIV 1845

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) Summary: Palestinian and regional banks operating in Gaza are open and report "business as usual." Hamas is currently taking a "hands-off" approach to Gaza's banking sector, but banks are implementing some precautionary measures, such as restricting the authority of Gaza-based staff and limiting their access to data bases maintained at bank offices in the West Bank. In response to a Palestine Monetary Authority (PMA) recommendation, the only two banks headquartered in Gaza are moving their head offices to Ramallah. All banks queried indicated that they will close their branches in Gaza if Hamas attempts to meddle in banking operations. Prime Minister Salem Fayyad froze PA bank accounts in Gaza June 17 and suspended PA signatory authority for banking transactions there. The continued closure of Erez crossing may prompt a banking sector liquidity crisis in Gaza early next month. End summary.

PMA Actions

¶2. (C) Palestine Monetary Authority (PMA) Deputy Governor Jihad al-Wazir told Econoff June 20 that, during the height of last week's Hamas-Fatah clashes in Gaza, the PMA authorized banks operating there to close. The banks remained closed for two days. Wazir said that banks had requested permission to close out of concern for the safety of their personnel. The PMA instructed banks to reopen June 17, and all banks have been operating normally since then, according to Wazir and representatives of several banks. Wazir and several bank officials report that Hamas has not attempted to intervene in banking affairs. Wazir did note, however, that Hamas personnel had entered the PMA office in Gaza and confiscated firearms from PMA security personnel. They signed for the weapons and promised to return them once the situation calms down.

¶3. (C) Wazir reported that the PMA had distributed Prime Minister Salem Fayyad's decision of June 17 freezing PA accounts in Gaza banks and suspending the signatory authority for banking transactions of PA officials working in Gaza. Concerned about possible pressure on the banks from Hamas, the PMA provided a cover letter explaining that banks are obliged to follow these instructions and issued a press release stating the same. The PMA also recommended to the only two banks with headquarters in Gaza, the Bank of

Palestine and the Palestine Islamic Bank, that they move their main offices to Ramallah. Wazir said both are in the process of doing so. Wazir said that banks are also implementing other PMA recommendations restricting the authority of Gaza-based staff and limiting their access to data bases maintained at bank offices in the West Bank.

Liquidity Problem

¶4. (C) Wazir and bank officials reported that banks will face a liquidity crisis if the Erez crossing remains closed. No mail or cash has come through Erez in over a week. The PMA estimates that banks in Gaza have a total of USD 40 million in cash (including NIS 65 million), of which the Bank of Palestine holds between 25-30 percent.

Israeli Banks

¶5. (C) Senior officials from Bank of Jordan, Cairo Amman Bank, and Bank of Palestine told Econoff June 20 that they have received no indication from Israeli banks of any plans to sever ties to banks operating in Gaza. Cairo Amman Regional Manager Joseph Nesnas advised that he was in touch with Bank Hapoalim and the Israeli Discount Bank earlier the same day, and there had been no suggestion of a change. Bank of Jordan Regional Manager Susan Khoury told Econoff June 20 that Israeli banks deal directly with the regional offices in the West Bank. Terminating their indirect contact with Gaza banks would have to be coordinated with the regional offices, perhaps as a condition of continued cooperation between

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Israeli and West Bank-based banks, according to Khoury.

Bank of Palestine: No PA Accounts in Gaza

¶6. (C) Bank of Palestine (BP) Chairman Hashim Shawa told Econoff June 20 that BP transferred all its PA accounts to its regional office in Ramallah eight months ago, putting these funds beyond the reach of Hamas. Although Shawa -- who happened to be in Ramallah when fighting broke out in Gaza -- would not say that BP is moving its headquarters to Ramallah, he did describe how BP had established a regional office there and had worked hard in recent months to provide it with the same, if not better, capabilities of the main office in Gaza. He added that the fighting in Gaza had had minimal impact on BP operations there.

Still Following USG rules; Will Close if Pressed

¶7. (C) Shawa stressed that BP is operating "strictly" according to existing U.S. Treasury guidelines, adding that BP maintains a database in Ramallah which screens all wire transfers involving BP branches. Bank of Jordan's Khoury and Cairo Amman Bank's Nesnas also insisted that their respective banks continue to adhere to USG restrictions. Wazir opined, and the banking officials agreed separately that they would close their branches in Gaza if Hamas attempted to meddle in their affairs.

WALLES